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Why Our Best Officers Are Leaving

Why are so many of the most talented officers now abandoning military life for the private sector? An exclusive survey of West Point graduates shows that it's not just money. Increasingly, the military is creating a command structure that rewards conformism and ignores merit. As a result, it's losing its vaunted ability to cultivate entrepreneurs in uniform.

TIM KANE JANUARY/FEBRUARY 2011 ISSUE

JOHN NAGL STILL hesitates when he talks about his decision to leave the Army. A former Rhodes Scholar and tank-battalion operations officer in Iraq, Nagl helped General David Petraeus write the Army's new counterinsurgency field manual, which is credited with bringing Iraq's insurgency under control. But despite the considerable influence Nagl had in the Army, and despite his reputation as a skilled leader, he retired in 2008 having not yet reached the rank of full colonel. Today, Nagl still has the same short haircut he had 24 years ago when we met as cadets— me an Air Force Academy doolie (or freshman), him a visiting West Pointer—but now he presides over a Washington think tank. The funny thing is, even as a civilian, he can't stop talking about the Army—"our Army"—as if he never left. He won't say it outright, but it's clear to me, and to many of his former colleagues, that the Army fumbled badly in letting him go. His sudden resignation has been haunting me, and it punctuates an exodus that has been publicly ignored for too long.

Why does the American military produce the most innovative and entrepreneurial leaders in the country, then waste that talent in a risk-averse bureaucracy? Military leaders know they face a paradox. A widely circulated 2010 report from the Strategic Studies Institute of the Army War College said: "Since the late 1980s … prospects for the Officer Corps' future have been darkened by … plummeting company-grade officer retention rates. Significantly, this leakage includes a large share of high-performing officers." Similar alarms have been sounded for decades, starting long before the wars in Iraq and Afghanistan made the exit rate of good officers an acute crisis. When General Peter Schoomaker served as Army chief of staff from 2003 to 2007, he emphasized a "culture of innovation" up and down the

ranks to shift the Army away from its Cold War focus on big, conventional battles and toward new threats. In many respects (weapons, tactics, logistics, training), the Army did transform. But the talent crisis persisted for a simple reason: *the problem isn't cultural*. The military's problem is a deeply anti-entrepreneurial personnel structure. From officer evaluations to promotions to job assignments, all branches of the military operate more like a government bureaucracy with a unionized workforce than like a cutting-edge meritocracy.

After interviewing veterans who work at some of the most dynamic and innovative companies in the country, I'm convinced that the military has failed to learn the most fundamental lessons of the knowledge economy. And that to hold on to its best officers, to retain future leaders like John Nagl, it will need to undergo some truly radical reforms—not just in its policies and culture, but in the way it thinks about its officers.

All They Can Be?

It would be easy to dismiss Nagl's story, except you hear it almost every time you talk to a vet. In a recent survey I conducted of 250 West Point graduates (sent to the classes of 1989, 1991, 1995, 2000, 2001, and 2004), an astonishing 93 percent believed that half or more of "the best officers leave the military early rather than serving a full career." By design, I left the definitions of *best* and *early* up to the respondents. I conducted the survey from late August to mid-September, reaching graduates through their class scribes (who manage e-mail lists for periodic newsletters). This ensured that the sample included veterans as well as active-duty officers. Among active- duty respondents, 82 percent believed that half or more of the best are leaving. Only 30 percent of the full panel agreed that the military personnel system "does a good job promoting the right officers to General," and a mere 7 percent agreed that it "does a good job retaining the best leaders."

Is this so terrible? One can argue that every system has flaws and that the military should be judged on its ultimate mission: maintaining national security and winning wars. But that's exactly the point: 65 percent of the graduates agreed that the exit rate of the best officers leads to a less competent general-officer corps. Seventy-eight percent agreed that it harms national security.

The shame of this loss of talent is that the U.S. military does such a good job attracting and training great leaders. The men and women who volunteer as

military officers learn to remain calm and think quickly under intense pressure. They are comfortable making command decisions, working in teams, and motivating people. Such skills translate powerfully to the private sector, particularly business: male military officers are almost three times as likely as other American men to become CEOs, according to a 2006 Korn/Ferry International study. Examples abound of senior executives who attribute their leadership skills to their time in uniform: Ross Perot, Bill Coleman, Fred Smith, and Bob McDonald, the new CEO of Procter & Gamble, to name a few. The business guru Warren Bennis reflected in his recent memoirs, "I never heard anything at MIT or Harvard that topped the best lectures I heard at [Fort] Benning."

Why is the military so bad at retaining these people? It's convenient to believe that top officers simply have more- lucrative opportunities in the private sector, and that their departures are inevitable. But the reason overwhelmingly cited by veterans and active-duty officers alike is that the military personnel system—every aspect of it—is nearly blind to merit. Performance evaluations emphasize a zero-defect mentality, meaning that risk-avoidance trickles down the chain of command. Promotions can be anticipated almost to the day— regardless of an officer's competence—so that there is essentially no difference in rank among officers the same age, even after 15 years of service. Job assignments are managed by a faceless, centralized bureaucracy that keeps everyone guessing where they might be shipped next.

The Pentagon's response to such complaints has traditionally been to throw money at the problem, in the form of millions of dollars in talent-blind retention bonuses. More often than not, such bonuses go to any officer in the "critical" career fields of the moment, regardless of performance evaluations. This only ensures that the services retain the most risk-averse, and leads to long-term mediocrity.

When I asked veterans for the reasons they left the military, the top response was "frustration with military bureaucracy"—cited by 82 percent of respondents (with 50 percent agreeing strongly). In contrast, the conventional explanation for talent bleed—the high frequency of deployments—was cited by only 63 percent of respondents, and was the fifth-most-common reason. According to 9 out of 10 respondents, many of the best officers would stay if the military was more of a meritocracy.

Entrepreneurs in Uniform

During World War II, German generals often complained that U.S. forces were unpredictable: they didn't follow their own doctrine. Colonel Jeff Peterson, a member of the faculty at West Point, likes to illustrate this point using a parable about hedgerows. After the Normandy invasion in 1944, American troops found that their movements were constrained by the thick hedgerows that lined the countryside of northern France. The hedges frequently channeled American units into German ambushes, and they were too thick to cut or drive through. In response, "Army soldiers invented a mechanism on the fly that they welded onto the front of a tank to cut through hedgerows," Peterson told me.

American troops are famous for this kind of individual initiative. It's a point of pride among officers that the American way of war emphasizes independent judgment in the fog and friction of battle, rather than obedience and rules. Lieutenants, even corporals and privates, are trained to be entrepreneurial in combat. This emphasis doesn't just attract inspirational leaders and efficient managers—it produces revolutionary innovators. From the naval officer Alfred Thayer Mahan, whose insights on sea power transformed warfare at the beginning of the 20th century, to General Billy Mitchell, the godfather of the Air Force, to General Petraeus, who's now implementing his counterinsurgency strategy in Afghanistan, the U.S. military has a long and proud tradition of innovative thought.

Creativity of this sort is increasingly celebrated by economists who study growth, many of whom now believe that innovation is essentially the only factor that drives long-term increases in per capita income. Since innovation relies entirely on people —what economists call human capital— academics are showing more appreciation than ever for Joseph Schumpeter and his pioneering focus on entrepreneurship. Entrepreneurs, Schumpeter noted, take risks, experiment with new technologies and ideas, and bring about the "creative destruction" that enables capitalism to flourish. Likewise, martial progress relies on innovative officers, especially those who question doctrine and strategy.

But the Pentagon doesn't always reward its innovators. Usually, rebels in uniform suffer at the expense of their ideas. General Mitchell was court-martialed for insubordination in 1925; and who can forget the hostile treatment afforded General Eric Shinseki in 2003 after he testified that "something on the order of several

hundred thousand soldiers" would probably be required to stabilize post-invasion Iraq?

In a 2007 essay in the *Armed Forces Journal*, Lieutenant Colonel Paul Yingling offered a compelling explanation for this risk-averse tendency. A veteran of three tours in Iraq, Yingling articulated a common frustration among the troops: that a failure of generalship was losing the war. His critique focused not on failures of strategy but on the failures of the general-officer corps making the strategy, and of the anti-entrepreneurial career ladder that produced them: "It is unreasonable to expect that an officer who spends 25 years conforming to institutional expectations will emerge as an innovator in his late forties."

Despite the turnaround in Iraq since engineered by General Petraeus and his allies, it is hard to escape the impression that the military has indeed become less hospitable to entrepreneurs at the strategic level in the past few decades. Schumpeter predicted that as capitalist economies evolved, innovation would become routinized in large organizations, obviating the need for individual entrepreneurs. Until the 1980s, this idea was widely accepted in corporate America, and certainly in the defense industry. But Schumpeter's prediction was upended definitively when the knowledge economy evolved out of the industrial economy, and symbolically when Steve Jobs and Steve Wozniak started Apple Computer in a California garage. In America today, capitalism is entrepreneurial: our economy is defined by individuals failing or succeeding on the strength of their ideas. Crucially, the military has not recognized this shift. And the Army, in particular, has not changed from its "inefficient industrial era practices," as a report by the Strategic Studies Institute put it last year. It still treats each employee as an interchangeable commodity rather than as a unique individual with skills that can be optimized.

It's Not Business, It's Personnel

The most blatantly anti-entrepreneurial aspect of the Army is the strict time-in-service requirement for various ranks. Consider the mandatory delay for becoming a general. Active-duty officers can retire after 20 years of service. But to be considered for promotion to general requires at least 22 years of service, and that applies to even the most talented and inspiring military officer in the nation.

John Nagl might have been that officer. His 2002 book, *Learning to Eat Soup With a Knife*, anticipated the kind of insurgency warfare America was likely to face in the new century, and it proved a prescient warning as the wars in Iraq and Afghanistan dragged on. After serving in Iraq, Nagl helped General Petraeus write the Army's counterinsurgency doctrine in 2005 and 2006. Conventional wisdom holds that the "surge" broke Iraq's insurgency the following year. But the surge was more than just the 30,000 or so additional soldiers and marines who were deployed. The key was instead a new emphasis on stability and development, inspired in large part by ideas laid out in Nagl's book.

In 2008, Nagl hit the 20-year mark, and what happened? He retired. Since he was not yet a full colonel, let alone a general, it was clear that he could be more influential as a civilian. He is now the head of the Center for a New American Security, known in Washington as President Obama's favorite think tank. Had he stayed in the Army, odds are he would have been a career colonel, or a professor at the Army War College. Now his work at CNAS regularly reaches the White House and the National Security Council. While I assumed the loss of Nagl would be seen as an outrage within the military, most officers I spoke to shrugged it off as typical.

The more experts I talked with, the more I realized that targeting one inefficient policy, like the time-in-service requirement, wasn't going to work. I asked the survey respondents to grade different aspects of the military in terms of fostering entrepreneurial leadership, using a standard A through-F scale. The "recruitment of raw talent" received 12 percent A's and 43 percent B's. Formal training programs and military doctrine also got good marks. What emerged as the weakest area was personnel. The evaluation system received 51 percent D's and F's. Job assignments got 55 percent failing grades. The promotion system got 61 percent. And lastly, the compensation system received 79 percent D's and F's.

Simply put, if the Army hopes to stanch the talent bleed, it needs to embrace an entrepreneurial *structure*, not just *culture*. That doesn't mean more officers who invent new weapons, but rather a new web of incentives rewarding creative leadership. The military has reinvented itself in this manner before. West Point's Jeff Peterson recounted the standard story line of the Army's soul-searching after Vietnam. After eight years of committing hundreds of thousands of soldiers to a war that was lost on many levels, the Army returned to a strategic comfort zone, with its leadership thinking about conventional wars instead of the messy

counterinsurgency it had just muddled through. While this story isn't wrong on the whole, Peterson argues that it ignores the radical transformations that took place in the 1970s. He pulled James Kitfield's book *Prodigal Soldiers* from his bookshelf and encouraged me to read it.

Kitfield chronicles a revolution in that era in how the Army treated, organized, and trained its soldiers. No change was bigger than the adoption of an all-volunteer force in 1973. It was a radical idea at the time, so controversial that many in the Army expected it to fail, or even to destroy the military. Instead, the all-volunteer force served as the beginning of a renaissance in the ranks, across all the services, and paved the way for a newly professional military. Instead of staying in for just two years, enlistees now commonly stayed for five years, or 10, or a career. The Army started paying better and, more important, making investments in its human capital. But make no mistake, moving to a volunteer force was not an incremental reform. It was radical. This connection may explain why almost 60 percent of the West Point respondents favored "radical reform" of the personnel system.

Radical reform may not sound like much of a blueprint, but the all-volunteer force must be understood in terms of a philosophical shift: the military rejected centrally planned accessions in exchange for a *market mechanism*. Faced with having to attract and retain volunteers, the military filled its requirements for labor with the *right price*: better pay, better housing, better treatment, and ultimately a better career opportunity than it had ever offered.

A Market Alternative

Today's Army requires a similar philosophical shift if it is to generate more-entrepreneurial leadership and start retaining its most talented officers. When presented with 10 proposed policy changes, the panel of West Point grads was strongly in favor of five, marginally in favor of three, split on one, and strongly against the last. Dead last was reauthorizing the draft instead of the all-volunteer force, a proposal that drew support from only 14 percent of respondents. So what did they think would help?

The Army should start by breaking down its rigid promotion ladder. The most strongly recommended policy, which 90 percent agreed with, is to allow greater specialization. Under the current system, company and platoon commanders are often "promoted" to staff jobs—that is, transferred from commanding troops in

battle to working behind a desk on a general's staff—even if they'd prefer to specialize in a lower-ranking position they enjoy. Rather than take an advancement they don't want, many quit the Army altogether. Expanding early-promotion opportunities for top performers and eliminating year-group promotions also have strong support (87 and 78 percent, respectively). All of this might be hard to do while maintaining centralized management of rank and job assignments, but three-quarters of the panel favored ditching that system entirely in favor of an internal job market.

Indeed, an internal job market might be the key to revolutionizing military personnel. In today's military, individuals are given "orders" to report to a new assignment every two to four years. When an Army unit in Korea rotates out its executive officer, the commander of that unit is *assigned* a new executive officer. Even if the commander wants to hire Captain Smart, and Captain Smart wants to work in Korea, the decision is out of their hands—and another captain, who would have preferred a job in Europe, might be assigned there instead. The Air Force conducts three assignment episodes each year, coordinated entirely by the Air Force Personnel Center at Randolph Air Force Base, in Texas. Across the globe, officers send in their job requests. Units with open slots send their requirements for officers. The hundreds of officers assigned full-time to the personnel center strive to match open requirements with available officers (each within strictly defined career fields, like infantry, intelligence, or personnel itself), balancing individual requests with the needs of the service, while also trying to develop careers and project future trends, all with constantly changing technological tools. It's an impossible job, but the alternative is chaos.

In fact, a better alternative *is* chaos. Chaos, to economists, is known as the free market, where the invisible hand matches supply with demand. The Strategic Studies Institute report makes this very point. "Giving officers greater voice in their assignments increases both employment longevity and productivity," it concludes. "The Army's failure to do so, however, in large part accounts for declining retention among officers commissioned since 1983."

Here is how a market alternative would work. Each commander would have sole hiring authority over the people in his unit. Officers would be free to apply for any job opening. If a major applied for an opening above his pay grade, the commander at that unit could hire him (and bear the consequences). Coordination could be

done through existing online tools such as monster.com or careerbuilder.com (presumably those companies would be interested in offering rebranded versions for the military). If an officer chose to stay in a job longer than "normal" ("I just want to fly fighter jets, sir"), that would be solely between him and his commander.

Each of the four military branches is free to design its own personnel system, with minimal Pentagon interference. Yet each uses a similar centralized-planning department. It would take only one branch to lead the way by adopting the best practices of corporate America—where firms manage vast workforces by emphasizing flexibility, respect for individual talent, and executive responsibility. During my study, I surveyed ex-military officers at Citi, Dell, Amazon, Procter & Gamble, TMobile, Amgen, Intuit, and countless venture-capital firms. At every company, the veterans were shocked to look back at how "archaic and arbitrary" talent management was in the armed forces. Unlike industrial-era firms, and unlike the military, successful companies in the knowledge economy understand that nearly all value is embedded in their human capital.

I traveled to Silicon Valley to learn about the organizational design of firms there, and also to learn about the talent ecosystem. Nowhere is there a military-style 20-year retirement framework that distorts career decisions, and no one offers the security of lifetime employment. Instead, Silicon Valley attracts talent because it knows the importance of flexibility. Companies, unlike military units, are born and die out constantly, and the massive flow of labor across and within companies is highly turbulent. Not only can ambitious visionaries become top executives in half a decade, but employees can do the one thing they love for decades without worrying about getting "promoted" to management positions they don't want. In the glassy buildings of Menlo Park, "being all you can be"—whether it's coding C++, designing Web campaigns, or excelling in some other niche—isn't just a slogan.

One Silicon Valley executive I spoke with, whom I'll call Captain Smith, contrasted his time as a Marine company commander with his current job leading hundreds of employees, from software engineers to sales managers. Like other veterans in corporate America, he credits his military training with sharpening his leadership skills. But the analytical mind he uses to devise business models is just as sharp in assessing the military's inept talent management. What's the impact of merit on promotions in the Marines? "Virtually none," says Smith. "On average, the best

officers got out; the worst officers got out." There are notable exceptions, he said. "But the larger trend I observed drives any organization toward mediocrity."

When I asked him about Silicon Valley's lessons for the military, he mentioned his firm's internal market for matching engineers and projects, where the bottom line is that engineers rule. Team leaders have to advertise their projects and try to attract engineers, and it's uncommon for an engineer to be told what he or she will do. Happier workers mean higher productivity. "I don't want to oversimplify," he says. "But this is about incentives and control."

In contrast, only one in five of the West Point graduates thinks the Army today does a good job matching talents with jobs. And nearly two-thirds agree that using an evaluation system that singled out the best and worst members of a given unit—for advancement or release—would yield a more entrepreneurial leadership. Such a system, popularized by Jack Welch of General Electric, would give commanders better information, and also make personnel ratings a lot more useful than the politically correct write-ups in abundance now. It would also recast the personnel officers as headhunters, focused on giving advice, rather than orders, to job-seekers and to hiring commanders.

I asked Smith—a supremely tech-savvy, gung-ho leader—whether he would consider rejoining if the Marines recruited him to serve as a general officer, perhaps to command their cyber-security efforts. I anticipated that his resolute willingness to serve would offer a vivid contrast to the military's closed-mindedness. But he surprised me. He thought quietly for a minute. Then, shaking his head, he said something much more damning: "I can't see it," the Silicon Valley marine said. "Even if they made that offer ... I have no confidence that I could pierce the bureaucracy."

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